

European Markets

British Energy's Loan Extended --- U.K. Gives Ailing Company Two More Months, Raises Amount to 1.04 Billion Euros

By Andrea Chipman

Dow Jones Newswires

800 words

27 September 2002

[The Wall Street Journal Europe](#)

M2

English

(Copyright (c) 2002, Dow Jones & Company, Inc.)

LONDON -- The U.K. government Thursday extended its loan facility to ailing nuclear-plant operator British Energy PLC for an additional two months through Nov. 29, and increased the amount to GBP 650 million (1.04 billion euros) from GBP 410 million.

The decision to roll over the loan gives the company some much-needed breathing room to continue its efforts to secure private-sector financing for a restructuring, but the company warned again that it can't rule out the possibility of bankruptcy further down the line.

"If further discussions are not successful, and there can be no guarantee that they will be, the company may be unable to meet its financial obligations as they fall due and therefore the company may have to take appropriate insolvency proceedings," British Energy said in a statement to the London Stock Exchange.

The government extended the original GBP 410 million loan facility on Sept. 9, after British Energy revealed the extent of its cash crisis. The loan was due to mature Friday, and government officials were reportedly leaning toward putting the company into administration as recently as a week ago.

Trade and Industry Secretary Patricia Hewitt, in a statement Thursday, said the extension of the government's loan was designed to allow more time to clarify the company's financial position and look at all restructuring options.

"No decisions have been taken and no commitments given on the company's long-term future at this time," Ms. Hewitt said in the statement. "These necessarily involve detailed and lengthy discussions and it is essential that both the company and the government have sufficient time."

Both the government and the company's investors are likely to face unpleasant decisions in the weeks ahead, industry sources said.

British Energy's immediate woes are due to the steep fall in domestic wholesale-electricity prices that has hurt all of the country's power producers. For British Energy, however, the weak price environment has left it unable to cover the higher fixed costs it faces as a nuclear generator. Long term, the company also faces decommissioning costs estimated at about GBP 5 billion.

As the country's largest generator, providing roughly 20% of the United Kingdom's electricity supply, British Energy is too large to be allowed to fail, analysts and investors say. At the same time the government is unlikely to relish the prospect of an expensive bailout or renationalization, with its associated political backlash.

The Socialist Environment and Resources Association, an organization affiliated with the Labour Party, was quick to attack the government's decision to roll over its loan, calling British Energy "a lame-duck company that should be put out of its misery without any further delay."

In its statement, the group urged the government to allow British Energy to go into administration and transfer its nuclear reactors to a separate liabilities-management agency that they proposed to set up in future legislation.

Investors, for their part, are fighting to claw back some value from the company.

Earlier this week, a group of the company's bondholders said they were discussing the possibility of providing a cash injection but would demand senior and secured status for any additional financial backing.

But Standard & Poor's Corp. in a report Wednesday, said bondholders' chances of recovering their initial investment remain far from clear, whether or not the company goes into administration.

"Even if the company does not go into administration, any financial restructure would have to consider the relative value and seniority of British Energy's other liabilities," said S&P Infrastructure Finance credit analyst Paul Lund.

Fixed-income dealers said there had been no trade in British Energy bonds since early Thursday, in anticipation of the government announcement. The company's 2003, 2006 and 2016 sterling bonds were all bid just over 50% of face value late Thursday, but there were no offers in the market, dealers said.

"No one has any idea what value to put on these bonds," a trader said.

Shareholders are considered even less likely to recoup any of their losses. British Energy shares, which fell as low as 10 pence earlier this week, closed at 18 pence, compared with 21.19 pence at Wednesday's close.

Analysts said assumptions of a rollover of the loan were largely factored into the share price, and that there was little new information to move the stock higher.

"They could pull this loan whenever they want to," said an analyst at a large investment bank who requested anonymity. "At the end of the day, there's no solution on the table."